LABOR CENTER REPORTER

UNIVERSITY OF CALIFORNIA, BERKELEY
CENTER FOR LABOR RESEARCH AND EDUCATION
INSTITUTE OF INDUSTRIAL RELATIONS
BERKELEY, CA 94720
(415) 642-0323

December 1987
Number 223

THE WORKER VERSUS THE CONSUMER

[by Clair Brown]

"To raise wages is unfair to the consumer, who must then pay higher prices."

This familiar refrain is heard often as a reason why wages cannot be increased--from the Hyundai factory in South Korea to the minimum wage in California. The interests of the consumer are pitted against the interests of the worker. How valid is this reason for not increasing substandard wages?

The Relation between Wages and Prices -- The impact on the price of a product when wages are increased depends on a variety of factors. How much a wage increase affects costs depends the share of wages in total costs. This varies dramatically by industry. For example, wages account for about 20% of all costs in the automobile industry but close to 80% in education.

The company has ways to pay for increased wages other than raising prices. Sometimes wage improvements will be offset by productivity improvements. In that case, average costs will not have increased. Or if profits have been high, wages can be increased by restoring profits to normal levels without raising prices. Many times firms prefer to maintain their customers rather than risk losing orders by raising prices.

What Wage is Fair? -- When a firm doesn't want to reduce its profits and/or implement productivity-enhancing measures, it may decide to raise prices to pay for a wage increase. How are we as a society to judge whether a wage hike is "fair" to the consumer or the worker? This takes us to the heart of the problem of how to judge wages.

A free-market economist will say, "Let the market decide, since it registers how much people are willing to pay." But the ideal of a free market is just that--an ideal. It doesn't exist anywhere, since all industrial economies must function within an elaborate structure of laws and social customs (see LCR No. 199, Dec. 1986). In addition, how much a family is willing to pay for something depends on its income, which depends on the wages being paid. So the problem has become circular--a "fair" wage distribution depends on the actual wage distribution. It is true that the actual perception of fairness depends on past practices. What kind of economic framework will explain this?

An institutional economist realizes that wages are determined in an on-going, usually silent, struggle between workers, managers, capitalists, and consumers, each trying to protect their own interests. What is considered a "fair" wage for an industry reflects the history of the wages in that industry, which is part of the social rule and custom. Any major increases in the wage in only one industry or in only one occupation, especially when followed by a price increase, usually leads to cries of "unfair" by management, other workers, and consumers.

Yet, if we look at the pay structure, we can see gross inequities that have persisted over decades. As the well-known British economist John Stuart Mill noted a century ago, the largest income went to wealthy capitalists and landowners "who have never worked at all," the next largest to those whose work is pleasant and "almost nominal," and "so in descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily laborer cannot count with certainty on being able to earn even the necessaries of life."

And so today we see farmworkers laboring long hours in physically excruciating work, and being paid very little for their labor. Most female workers are paid less than male workers even when their jobs are equal in terms of skill, effort, responsibility and working conditions. The same is true of black workers and other minority group workers when compared to white workers. As a society, we have created the economic and social structure that creates these outcomes, so we must take responsibility, and ask if these are the outcomes we want. This is especially important in discussing the minimum wage.

A "Fair" Minimum Wage -- A State Assemblyman once said to me during a hearing on whether or not the minimum wage law should be extended to farmworkers, "How can we possibly pay farmworkers the minimum wage? It would mean that strawberries will cost more than 39 cents a basket, and they are not worth more."

He represented those who believe that it is all right for some people to live in squalor so that others can eat inexpensive strawberries. I am among those who believe that none of us is entitled to buy goods and services cheaply when those producing them are living at a substandard level.

The same argument arises each time there is an attempt to increase the minimum wage. As a society we must decide whether we will pay more for strawberries (or dry cleaning, or fast food, or sweaters) in order to ensure that workers will earn a minimally acceptable wage. There is no "natural" price for strawberries; rather, the price will reflect the amount of exploitation of low-wage workers our society will accept.

Does it matter if the low-wage worker is employed in another country?

Foreign Competition -- Workers in less developed countries earn a fraction of the wages paid in the U.S. for comparable work producing similar goods. So U.S. consumers pay lower prices for goods produced abroad than for goods produced at home. This situation allows us to achieve a higher standard of living.

The difference in the prices of domestic vs. foreign-produced goods depends on the exchange rate, which is largely determined by the policies of the various governments, with the more developed countries able to exert more control over the less developed countries. In addition, countries vary greatly in their policies governing the importing and exporting of goods. Since international trade does not exist in "free markets" but within an international economic and social structure, we again must decide what types of rules we want to govern this trade.

Generally, movements in the exchange rate and negotiations on trade policies will eliminate trade imbalances among the major industrial countries. This is less likely to be true for our less developed trading partners whose need to improve workers' standards of living is enormous. In this case, conditions placed on imports--for example, requirements that goods not be "dumped" in our country, or that goods must be produced under minimal safety or working condition requirements--will raise the price of imported goods as it raises the standard of living of workers in the foreign countries producing the imports. But such policies will also maintain the standard of living of U.S. workers in the long run, as these policies protect the wages and working conditions of U.S. workers from being eroded by the abysmal conditions of workers abroad.

Summary -- The cry that increasing wages for lower-wage workers at home or abroad is "unfair to the consumer" must be met with a serious discussion about what type of income distribution our society wants to create. Our wage structure does not come from a "natural law" but rather reflects the complex social and economic structures that we have created at home and other countries have created abroad. Permitting the payment of substandard wages or allowing unsafe working conditions or failing to prohibit child labor may allow the price of some goods and services to be lower. In the long run, however, such policies will undermine the bargaining power and the standard of living of the majority of workers.

- Clair Brown